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FINANCIAL JUSTICE

BY

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FINANCIAL JUSTICE

JOHN F. LEO BRAY

IT will no doubt be agreed that the capitalist system is in many ways unjust. This injustice breeds internal strife and is the cause of glaring inequalities of wealth. The Popes have warned us of these dangers. Pope Pius XII's motto 'Peace the fruit of justice' implies that we must seek peace—peace in the home, peace within nations, peace between the nations by removing causes of injustice.

Perhaps the most vehement condemnation of financial capitalism has come from the pen of Count de la Torre. Writing in *Osservatore Romano* of 8th May, 1949, he speaks of 'that economic organism, independent of and superior to business and business men, which arises out of the accumulation of fortunes, and the ever-increasing concentration of wealth, stretching over four centuries which has resulted in modern capitalist enterprise'.

He says that 'wheresoever capitalism is based on erroneous conceptions, taking upon itself unlimited power over property without any consideration of the common weal, the Church has condemned it as contrary to the natural law'.

Finally, he declares 'Capitalism seizes, confiscates and dries up wealth, i.e. reduces the numbers of those who may enjoy riches, holds up distribution and defies Divine Providence who has given good things for the use of all men. St Thomas Aquinas says that man must not consider riches as his own property but as common good. This means that communism itself—as an economic system, apart from its philosophy—is not in contradiction with the nature of Christianity as is Capitalism. Capitalism is intrinsically atheistic. Capitalism is godless, not by nature of a philosophy which it does not profess, but in practice (which is its only philosophy)—by its insatiable greed and avarice, its mighty power, its dominion.' This is a strong, even a vehement condemnation.

What is this 'practical philosophy' of capitalism here castigated by Count de la Torre? It is the mercantile spirit, feared and condemned by St Thomas More over four centuries ago. This spirit is aptly typified by John Maynard Keynes in the expression

'maximization of profits' coined by him in his book 'The Theory of Interest and Employment'. Keynes regards it as axiomatic that a business man in his dealings will always seek to maximize his profits—regardless of all else! The industrialist, according to Keynes, will always seek to fix the level of his output at the point of maximum profit, increasing or decreasing his operations to correspond with his estimate of the future of prices and costs, without regard to the danger of unemployment or to the welfare of his workpeople. This is, perhaps, generally untrue of industrialists (who are in any case too near to their workpeople to disregard their welfare). Indeed, as will be shown later, the industrialists might be thought to fix their prices according to 'rule of thumb'! It is more true of financiers, who do not see the effect on human welfare of their operations.

'In practice capitalism is unjust', say the Popes. 'Capitalism is in practice godless' says Count de la Torre. Wherein lies this injustice? It appears in the practical application of capitalism. We must therefore examine the practical workings of modern capitalism and bring them to the bar of justice.

What is justice? St Ambrose says 'It is justice that renders to each one what is his, and claims not another's property; *it disregards its own profit in order to preserve the common equity*'. St Thomas Aquinas says that in commutative justice 'it is necessary to equalize thing with thing, so that one person should pay back to another just so much as he has become richer out of that which belonged to another'.

What of 'financial justice'? Finance answers the question: who pays? Accordingly, if we are to discuss the question of financial justice, we must examine common financial practices of modern-day business and try to decide whether the people who finally pay (generally the consuming public) are unjustly treated.

The plea is generally made that conditions have altered so much since St Thomas's day as to render much of what he has written concerning the just price, interest, etc., out of date and no longer applicable. This plea must be examined, but it may be stated unequivocally that St Thomas's basic principle of justice, founded as it is on the natural law, is eternal and immutable.

It may be well, before we delve deeper, to point to one par-

ticular which distinguishes modern capitalism from the capitalism of St Thomas's day. This can be summed up in the word 'progress'. The capitalism of St Thomas's day, though undoubtedly not immune from change, was static; whereas modern capitalism is 'progressive'.

The U.S. President's Materials Policy Commission in its five-volume work, 'Resources for Freedom', investigates the probable raw material and food needs of the U.S.A. in 1975 and seeks to determine how those needs can be met. Its basic assumption is that the output of material goods in the U.S.A. will grow in the 25 years 1950–75 at a compound rate of 3 per cent per annum. Not in respect of every single article consumed, but overall. But whereas *output* of material goods is expected to rise by 3 per cent per annum compound, the *consumption* of materials will rise at a rate of only 2 per cent per annum, partly because of expectation of improvements by way of economy in use, partly by way of re-using existing supplies. The following table shows the consumption in 1975 as estimated by the Report for a number of basic products.

	1950 *Consumption*	*Expected* 1975 *Consumption*	*Rate % increase per annum*
Foods	100	142	1.4%
Other Raw Materials	100	164	2.0%
Iron	100	154	1.6%
Coal	100	154	1.6%
Petroleum	100	209	3.0%
Nickel	100	200	2.8%
Copper	100	143	1.4%
Aluminium	100	391	5.6%
Manganese	100	1945	12.6%
Sulphur	100	210	3.0%

The report states that in the 50 years between 1900 and 1950 the U.S.A. increased by 2½ times the amount of coal taken from the earth, by 3 times the amount of copper, 3½ times the amount of iron ore, 4 times the amount of zinc, 26 times the amount of natural gas and 30 times the amount of oil.

This is progress! The Report finds that the U.S.A. has so far used up its indigenous resources that it will be necessary by 1975 for her to import more and more of her needs for food and raw materials from abroad. Furthermore, it seems clear that the supply of water for industry and household use will present an ever growing problem.

This inflation of the capitalist economy at an unsteady rate of 3 per cent per annum as a fact of modern times should be borne in mind.

Having thus cleared the ground, we may consider the problem of financial justice under three headings: (I) Interest; (II) Creation of Money; (III) Profits.

I. INTEREST.

According to St Thomas, to take interest for money lent is unjust in itself, because this is to sell that which does not exist. The loan of a pig in 1900 would be adequately and justly repaid by giving back precisely one pig in 1950.

The principle of compound interest at 5 per cent asserts that the loan of one pig in 1900 would require repayment with about 11½ pigs in 1950, 131 pigs in 2000, or about 17,000 pigs in the year 2050. Is this just?

How did this principle—the principle of 5 per cent compound interest—actually work in the nineteenth century?

In 1854 the total volume of British capital invested abroad (owned by a small coterie of British financiers) was £200,000,000. By 1885 this figure had grown to £1,300,000,000. The increase of £1,100,000,000 could have been attained (reckoning 5 per cent compound interest) by the steady investment of £15,300,000 new money over the thirty-one years (total £475,000,000), that is to say, the actual capital investment—the extent to which the exports of this country exceeded its imports over the thirty-one years was £475,000,000. The balance, £625,000,000, represented interest at 5 per cent on the growing capital sum. Between 1885 and 1913 this capital investment grew to £3,763,000,000. According to *The Economist* of November 20th, 1937, the progress was as follows:

Five-Yearly Period	*Income from Overseas Investments*	*Re-investment*	*Balance received in goods and services*
	£ millions		
1885/1889	385	385	—
1890/1894	450	260	190
1895/1899	475	230	245
1900/1904	525	240	285
1905/1909	690	530	160
4 years 1910/1913	692	700	—8
Total 29 years 1885/1913	3217	2345	872

Thus, during the thirty-one years 1854–1884, exports from this country exceeded imports in total by £475,000,000. During the next twenty-nine years 1885–1913 imports exceeded exports by £872,000,000. Over the whole sixty years, imports exceeded exports by approximately £400,000,000.

It is important to note that on the whole prices were lower in the second period than in the first, so that the pounds received were generally of higher purchasing power than the pounds paid out.

It is seen that British investors were owed £200,000,000 in 1854; they received twice this sum in goods in the next sixty years; nevertheless they were owed £3,763,000,000 in 1913 as against £200,000,000 in 1854. Such was the effect of 5 per cent compound interest. If the process had not been arrested by the 1914/18 war it would have 'tended to infinity' in St Thomas's graphic words.

The rich investors in this country would have soon claimed an impossibly large share of goods and services from the rest of the world, solely because of the time factor, because they had been first in the field in providing the foreigner with goods.

It is clear that British investors have regarded their surplus

riches not as provisions to be held in trust for the benefit of their fellows, but as a property to be amassed and increased without limit.

The practice of unlimited accumulation of foreign claims just described was bound to lead to an explosion sooner or later. There is something to be said for the view that the 1914-18 war was one of these explosions. The indications are that Western financiers have not profited by this lesson.

Between the wars the rate of interest obtainable on foreign investments was high—around 7 per cent. As a result, despite the sales of investments, made necessary to finance the 1914-18 war, our foreign investments had again grown to £3,400,000,000 by 1934.

Owing to the 1939-45 war, Great Britain disposed of all her saleable assets, but had £2,000,000,000 of overseas assets at the end of the war. On the other hand she owed £3,800,000,000 (the famous 'sterling balances') at December 1951. These sterling balances are 'blocked'—they are not available to the foreigner except at the pleasure of the Bank of England, and can be invested only in such securities as the Bank of England agrees upon.

As a result, the 1951 accounts show that we paid out to the foreigner in respect of his £4,000,000,000 of sterling balances (the 1951 average) only £181,000,000 by way of interest. We drew from the foreigner by way of interest on our much smaller holding of foreign investments no less a sum than £271,000,000.

Governments cannot be relied upon to meet their interest and capital payments. The idea is abroad that the payment of interest and principal on Government debts, if found to be inconvenient, can be repudiated. The first nail in the coffin of the Government bondholder was hammered in by Mr Baldwin in 1933 when he refused to pay interest on the American loan. *Quis custodiet ipsos custodes?* To borrow, and then, when repayment becomes difficult, to repudiate, is uncommonly like a particularly obnoxious and backhanded method of stealing.

Another nail was the exorbitant rates of interest charged (especially by the U.S.A.) on Government bonds floated between the wars: 7, 8, 9, 10 per cent were common. These rates were charged to Poland, Czechoslovakia, Hungary, Germany, Greece,

Chili, Brazil, etc. Nearly all these loans were in default before many years were out.

Asia and Africa need vast sums for development, but the Asiatics, the Africans, are afraid to borrow; the Americans and the British are afraid to lend, and are disposed to charge ever higher rates owing to the fear of default arising from the attitude of the would-be borrowers. Investment at 5-10 per cent is facing its nemesis.

To go a little deeper; let us consider the point that, owing to the 'progress' of the modern world, conditions are different from what they were in the days of St Thomas Aquinas. It will be recalled that the supply of material goods has been rising for a century or more at the rate of 3 per cent per annum. It is a curious fact that between 1850 and 1914 the 'riskless' rate of interest (i.e. the rate on Consols) fluctuated around this level of 3 per cent. It was higher when commodity prices were high, lower when commodity prices were low.

St Thomas says that justice demands equality. It demands that the debtor should repay his creditor with something equal to the amount borrowed—no more, no less. Supposing a debtor A borrowed from debtor B the value of 100 tons of steel in 1850. Between 1850 and 1900 the steel output of the capitalist world increased, let us say, at 3 per cent compound interest; i.e. it increased $4\frac{3}{8}$-fold. It may be suggested that everybody should benefit by this increased output of material goods; debtors and creditors, employers and workmen. Employers should receive $4\frac{3}{8}$ times the 1850 income, workpeople should receive $4\frac{3}{8}$ times the 1850 wage, creditors should receive $4\frac{3}{8}$ times the principal of their debt. This would point to 3 per cent as a 'just' rate of interest.

II. Creation of Money.

Money, says St Thomas, was invented to facilitate exchanges. In the modern world it consists of gold, silver and base metal coins, paper currency and bank deposits—all instruments that can be used for immediate purchases of goods in the market place.

There is an important distinction to be made between metallic money and paper money. Metallic money has been paid for by the issuers—in the sense that each ounce of gold, silver or base

metals has had to be produced by some miner, and the miner has had to be paid for his labour.

Gold coinage is worth very nearly its full weight in gold; though this is not true of subsidiary coinage, silver and base metals. In issuing these subsidiary coins, governments make a profit.

When metallic coins are issued, those who receive these coins pay for them their full value in goods. They are not *borrowed*, they are *bought*. Paper currency in this country is created by the Bank of England on behalf of the Government. It costs very little to produce, but the person who buys it pays in goods its full nominal value. The British Government makes nearly 100 per cent profit on its issue of paper currency.

Deposits are created by banks and lent to industrialists and individuals, who borrow them from the banks, depositing securities as collateral. Deposits, therefore, in so far as they are not backed by coin, are created money.

This creation of money has amounted to vast sums in the past fifty years. In 1898 the volume of paper money in existence in the U.S.A. was about $9,000 million. By August 1952 it had reached the sum of $195,000 million. In 1923 the volume of paper money in existence in the U.K. was about £2,000 million. By October 1952 it had reached the sum of £7,160 million.

The principle on which this creation of money is effected can be made clear if we consider what happened when the Germans overran France in 1940. The Germans fixed their 'compensation' for occupation costs initially at Frs. 500,000,000 a day. At the end of ten days the German Commander sent round to the French Treasury and collected a draft on the Bank of France for Frs. 5,000,000,000. This was cashed in new notes printed for the purpose.

This newly created money was spent in the French shops and wholesale warehouses, thus denuding France of a corresponding amount of goods for which the Germans paid nothing. The Bank of France received Treasury Bills from the French Government, thus increasing the bank's assets by Frs. 5,000,000,000. The newly created francs circulated within the French economy, competing with the francs already in circulation, and thereby sending up prices.

As time went on, the Germans increased their demand to Frs. 1,000,000,000 a day to correspond with the 100 per cent rise in prices caused by their creation of money. In all, Frs. 865,000 millions of new money, equal in value to rather more than half a year's production of goods, was *created* during the four years that the Germans were in occupation.

It is seen, then, that the initial effect of any creation of money is to enrich the first receiver (and the bank that creates it) at the expense of the general public.

Historically the receiver of the money has usually been either the Government or a trader. A Government that is spending more than its income from taxes and other sources will be constrained to borrow newly created money from the banks. A trader who sees prospects of employing the money profitably, will, if he has the necessary security available to lodge with a banker, borrow newly created deposits from the banks for his purposes.

There are, of course, secondary effects. The newly created money will tend to raise prices. Merchants and traders who hold stocks of commodities will see the prices of their commodities rise; they will be able to sell them at rising prices, and so will increase their profits. The debtor classes (this means, in general, the merchants and traders) will see the real value of their debts fall.

In Mr Gaitskell's speech on the 13th September, 1950, he said: 'The costs of inflation are well known. The burden falls most heavily on those least able to protect themselves: the pensioner, the salaried worker, those who live on fixed incomes, and those workers who are slowest off the mark or in the weakest position in the scramble for higher wages. Wages will rise, but they will not keep pace with the rising prices.'

In the modern capitalist economy, the volume of production of goods has been rising at a rate of 3 per cent compound per annum, and is likely to continue to do so. It follows that if prices are to remain steady, the volume of money must also rise at the rate of 3 per cent compound over a long period.

If, over a span of time, the volume of money rises at a rate in excess of 3 per cent per annum, prices will begin to rise. Rising prices will engender a belief that the rise is likely to continue.

Once this belief takes hold, it is very difficult indeed to counter it. The public will tend to spend their money more quickly in the fear that prices will rise against them if they hold on to it.

This increase in the velocity of circulation of money is equivalent to a further increase in the volume of money. It is indeed remarkably difficult in a period of rising prices, to persuade people that prices will not continue to rise indefinitely.

Between 1939 and 1947 the volume of money in Great Britain increased nearly three-fold. Although in the years 1947-1951 there was almost no further increase, prices continued to rise, simply because nobody believed that a fall could take place.

Between 1947 and 1951 wholesale prices rose by 80 per cent, and the rise was only halted and reversed when, in November, 1951, the Government forced banks to call in loans (thus initiating a fall in the volume of money).

If, indeed, it is true that an expectation of rising prices can be prevented only by the authorities forcing banks to call in loans, then the outlook is grim indeed.

Let us consider what happens when banks call in loans on a large scale. Business men who have been holding stocks on money borrowed from the banks are suddenly called upon to repay their indebtedness to the banks. They all have to sell their stocks at the same time, and at a loss. The competition to sell brings prices down with a run.

Industrialists who had entered upon commitments which they intended to finance by borrowing from the banks or from the public, find that they can no longer borrow, and their plans for expansion have to be hurriedly stopped.

If business men act upon Keynes's principle, they will endeavour to maximize their profits by concentrating production upon the most profitable lines, suspending operations on those that are less profitable. They will sack men, or put their men on short time. With demand falling off because men are unemployed or half-employed, profits will fall further, and the process of cumulative depression will ensue.

By taking the long view, it will be noted that the cause of depression is to be sought in the initial undue creation of money, which may have taken place ten or fifteen years earlier.

The problem of the twentieth century is: how can a period of rapidly rising prices be brought to an end without causing severe unemployment, with all its implications—social unrest, serious human sufferings and tensions, communism?

If, over a period of five or ten years the volume of money increases inordinately, engendering a belief in rising prices, how can that belief be destroyed except by drastic restriction of bank loans, leading to severe depression and heavy unemployment?

If this belief in rising prices is not destroyed, it will ruin the whole economy, because sooner or later the public will lose all confidence in the value of money, and will cease to save. There is a danger of galloping inflation. The modern capitalist economy depends entirely upon a sufficient volume of savings, real or forced.

When a house or factory or office building is constructed, the workers and managers who devote their time and energy to the construction must be provided with their needs in food, clothing, heat, housing and services. They themselves do nothing directly to provide these goods. The rest of the public must, voluntarily or involuntarily, provide the goods needed by the persons engaged in construction. The general public must, in fact, save, and these savings must be put at the disposal of the workers and managers who build the houses and factories.

There are three ways in which this can be effected:

(1) By voluntary savings (in a period of rising prices these are likely to be deficient).

(2) By taxation. If the Government raises in taxation more than it spends, the surplus will be used to repay Government indebtedness to individuals or to banks, who are thereby put in possession of funds that can be lent to the builders.

(3) Any sums not contributed by (1) or (2) will have to be found by a new creation of money.

If the third method is adopted as a policy, the volume of money goes on increasing, prices continue to rise, leading eventually to galloping inflation.

The second method, of a massive Budget surplus, makes it possible for prosperity to continue without adding to the volume of money.

This was the method used in the period 1947-1951; if continued long enough this method might have succeeded in bringing down prices without causing heavy unemployment, but in retrospect it seems to have failed.

At first sight it would seem then that the art of monetary management is to provide a steadily increasing volume of money so as to keep prices stable; but let us look at the matter from the point of view of justice.

As already explained, when the volume of money is increased by bank lending—the normal method in this country of initiating an increase in the volume of money—the person to whom the money is lent gains at the expense of the rest of the community. This would seem to be unjust. The person who is thus enriched at the expense of the public has property that he can pledge; he has the opportunity of using the money to advantage.

The effect of this injustice is to send up prices or prevent them from falling. If prices rise, the man who suffers most is the family man with a large number of dependent children.

It is a statistical fact that 90 per cent of the poverty in a modern economy is borne by large families. Thus the effect of creation of money is broadly to enrich the rich at the expense of the poor.

The problems of unemployment, like all other social and political problems of today, arise from injustice. The solution of the problem of unemployment was given clearly by Pope Pius XII in his allocution of June, 1950, to the International Congress of Social Studies. He said that the cure lay in directing both production and consumption into basic family needs. The creation of money, as we have seen, withdraws purchasing power from the family for the enrichment of the rich. If the volume of money were stabilized, prices would fall gradually, and the worker (whose wages under falling prices would fall little or not at all) would gain. The whole economy would be transformed.

Let us consider the social effects of the creation of money.

(*a*) As we have seen, the initial effect of creation of money is the enrichment of the rich borrower for whose benefit the money is created at the expense of the community; the secondary effect is the enrichment of the rich merchant classes at the expense of the community.

These rich people will proceed to spend part of their new gains, and a demand will spring up for luxury goods, especially the latest designed luxuries—many of them financed by means of the created money.

The urge to compete will spread downwards, as the rise in incomes spreads from the richer to the poorer classes. Here we have a potent cause of birth control, which, according to Bishop Beck, is caused mainly by this competitive urge. We have a potent cause of class warfare arising from envy; a potent cause of widespread extravagance.

(*b*) Again, another effect of creation of money coupled with high interest rates is the enrichment of the city financial and business men at the expense of the countryside.

It is no accident, therefore, that the post-war period of world-wide inflation has witnessed a worldwide exodus from the country-side to the city, an exodus that threatens the very basis of the world's economy which depends, in the last resort, upon winning from the soil the food and raw materials needed to sustain life.

(*c*) A very serious effect of wholesale creation of money is the destruction of the real value of savings. This bears with special hardship upon the working classes. The working classes save for a purpose, and are in the habit of putting their money into Government securities (the Post Office, savings certificates, Trustee Savings Banks, building societies, insurance policies) on which they receive a modest return with assurance of repayment of capital.

The upper ten invest their money with the idea of getting richer; their chosen medium of saving is a well-spread portfolio of ordinary shares.

Small savings (the savings of the workers and smaller salary earner) grew steadily from £1,648,000,000 in 1927 to £3,780,000,000 in 1931. In the eight years from 1937 to 1945 there was a leap of over £4,000,000,000 from £3,780,000,000 to £7,891,000,000. While the £2,000,000,000 increase after 1927 was represented mainly by 3 per cent compound interest on the growing sum, the £4,000,000,000 increase between 1937 and 1945 was mainly the fruit of genuine savings attributed on the one hand to high earnings (many workmen were working

seventy hours a week), and a low level of spending arising from war-time restrictions.

Small savings were further increased in the first two post-war years by war gratuities to a sum of about £10,000,000,000.

As a result of the war-time and post-war creation of money, the present level of £10,000,000,000 of small savings is worth (in purchasing power) less than the pre-war figure of £3,780,000,000, so that the whole of the war-time saving effort and the saving of gratuities have been vitiated.

According to Leo XIII, the working man has a natural right to acquire property through saving. Creation of money destroys their savings.

(*d*) Again, by sending up prices, creation of money has the effect (if it is not countered by Government manipulation of the bond market) of raising the rate of interest.

Accordingly, if the volume of money was stabilized, not only would the direct injustices of money creation be avoided, but also the rate of interest would slowly and steadily fall; we should in due course approximate to a condition of a nil rate of interest that would delight the heart of St Thomas Aquinas.

It is a curious fact that after a sustained fall in commodity prices in the twenty years between 1877 and 1896, actuaries were seriously debating whether the business of life insurance could be carried on with a nil rate of interest, and the question was answered in the affirmative!

(*e*) In a period of rapidly rising prices it would need a Solomon to decide what was a just price.

It is unquestionable that within the past fifty years the idea of a just price has almost disappeared from the capitalist economy. The seriousness of such a development need hardly be stressed. For one thing, it reduces all long-term projects to a speculation, since no man can foresee the probable costs involved.

III. PROFITS.

One of the arguments for allowing interest in the modern world is that conditions are different from what they were in St Thomas's day. A lender now pleads that in lending his money to a borrower he is forgoing the opportunity to invest it in a sound industrial

ordinary share to give a 'safe' yield of 5-6 per cent. Accordingly, interest is claimed to be allowable provided it does not exceed the market rate of profit, or the market 'yield' on ordinary shares.

Surely this argument is incomplete? Surely we must go further and ask if investment in ordinary shares is just? We will leave aside the question whether an 'absentee shareholder' who takes no interest in the concern he owns and treats it merely as a means of making money has any right to the profits. We will assume that the shareholder tries, as best he may, to interest himself in the business that he partly owns and tries to ensure that it is run on just lines.

If we make that assumption, we still have to decide what is a just rate of profit. It may be surprising that the ultimate yield on a widely spread portfolio of ordinary shares is likely to be much greater than the yield given by a consideration of the dividend alone.

During the years 1950 to 1952 *The Economist* published exhaustive analyses of the profits of British companies.

The general conclusion to be drawn from these analyses is that the dividends paid ranged between 5 per cent and 8 per cent of the capital employed, but that the earnings ranged between 13 per cent and 16 per cent. The balance of about 8 per cent, less corporate taxes, was ploughed back into the business, increasing the capital employed (at compound interest) and so eventually increasing the dividends paid over a period. The true yield on a well-spread portfolio is thus given not by the dividend yield but by the earnings yield. And on that criterion the yield is from 13 per cent to 16 per cent.

Figures given for the U.S.A. by the National City Bank Review show that earnings on capital employed, though they fluctuated considerably before the war, were around 10 per cent, while post-war earnings have been around 14 per cent.

The U.S. figures are given *after* corporate taxes.

As far as can be seen, the practice in British industry is for manufacturers, wholesalers and retailers to work to a conventional margin of profit. This margin is sufficient to provide for the replacement of assets, for the current rate of return on capital and for a surplus for expansion.

This expansion is necessary, of course, if the current cult for progress is to be satisfied. But the expanded assets will thus belong to the owner and his shareholders.

This is a practice that seems to call for careful consideration by moral theologians! For evidently, the expansion is the work not only of capital but also of labour: yet the whole of the additional assets are appropriated (Pius XI's word!) by capital. This practice is made possible by the law of the land which assumes that a board of directors is responsible only to its shareholders.

It will no doubt be realised that the rate of 13-16 per cent on employed capital that is exacted at each stage of manufacture and distribution is paid by the community. The margin of profit that is added to the cost of the article at each stage by the manufacturer, the wholesaler and retailer, includes this rate of 13-16 per cent on the capital employed and the final result is seen in a greatly enhanced price for the final product sold in the retail shops. The consumer pays in proportion to his purchases.

The net effect of the combined operation of interest, creation of money, and excessive profits is two-fold. It increases the mal-distribution of incomes and wealth within the richer communities, it increases still further the mal-distribution of incomes and wealth between nations.

Mal-distribution within the two major capitalist countries—U.K. and U.S.A.—is considerably modified by taxation. The heavy taxation in U.K. and U.S.A. tends to increase rather than otherwise the mal-distribution between nations, because the rich merchant in the U.K. and the U.S.A. is inclined to add his heavy taxation to the price that he charges to overseas customers.

The three considerations that tend to enlarge the gulf between the rich and the poor in the modern capitalist economy have been discussed at some length. It is clear that the problem is considerably modified by the effect of high taxation in this country and the U.S.A., at any rate.

Leaving aside the question of the U.S. taxation system, the British system is interesting. It has been the practice in modern British budgeting for the social services (roughly half the Budget) to be paid for by indirect taxation which bears mainly upon the poor, while the rest of the expenditure, including any surplus, is

borne by direct taxation of the rich. In recent years the expenditure borne by the rich (mainly for defence, debt charge and administration) has grown enormously, so that income tax and surtax on high incomes range up to 19s. 6d. in the pound, while death duties absorb anything up to 80 per cent of a large estate.

In fact the Government of this country allows the capitalist system of usury to exercise its full effect in enriching the rich, and then proceeds to tax these rich people heavily for its own purposes. That is the situation.

So far, the capitalist system has been criticized somewhat severely. But if the matter be considered objectively it is seen that despite its injustices the system has brought many benefits. It has, in fact, used the acquisitive propensities of mankind to produce and distribute a growing quantity of useful goods. The payment of interest has created an incentive for savings. Would these savings have been forthcoming without it?

The savings have been mobilized by the financial system and placed at the disposal of enterprising men, enabling them to build electrical generating stations; to prospect for, produce and 'crack' crude oil into its many component parts for use in transport, fertilizers, textiles; to prospect for, produce and transport valuable and useful metals.

Without savings and the machinery for placing these savings at the disposal of men who have the energy and drive to use them for the benefit of those who can pay for the goods produced, all this would have been impossible.

In this country the worker has undoubtedly benefited in the past forty years. In 1911, out of six and a half million wage earners in Great Britain, two and a half million had weekly earnings of 12s. 6d. to 15s. a week; the vast bulk of railway workers received less than £1 a week.

In 1952 the average weekly earnings were about £8 a week.

Small savings in 1911 were almost non-existent, today they amount to some £10,000,000,000. So despite the fall in the value of money since 1911, there is no doubt that the British worker is better off now both in income and capital.

The criticisms are threefold:

(1) Although in this country good wages serve to counter

financial injustice, they do so often as a result of conflict between employer and worker; the worker feels instinctively that he has not the stability that would spring from the ownership of property —which is his natural right.

(2) Financial injustice between nations is less easily neutralized; in default of a remedy, men are apt to conclude that the only solution is war.

(3) With profits as the over-ruling aim of business, and the growth of big business and big trade unions, the human factor is lost to sight; man becomes a mere cog in a gigantic economic system.

Capitalism, in so far as it is unjust, holds within itself the seeds of its own destruction. It may be the business of men of goodwill to 'convert' capitalism and so save it from destroying itself. Certainly business and industry abound with such men who seek to temper the harshness of the economic system with the milk of human kindness.

Pope Pius XII never tires of reminding us that man is the subject and not the object of social relations. Man creates and fashions social relations, and is responsible for them. Any injustice must therefore be laid at the door of the men who create the unjust conditions, of the men who administer them. To speak of social relations as a *cause* of injustice is to make them superior to man, and to treat man as of less value than soulless matter. You cannot prosecute a brick wall. These matters may now be considered, as St Thomas considered them, from the point of view of the salvation of souls.

How can the business-man save his soul?

There are two aspects to consider. First the difficulty caused by what may be described as public opinion. Secondly the difficulty of aiding and abetting injustice. As to public opinion, it would seem that the modern attitude to riches is directly contrary to the Catholic attitude.

The view of liberal philosophy that a man's business in this life is to increase his material prosperity runs right through the system. Government (Cabinet Ministers, Civil Servants), business men, the Press—all the organs of public opinion—take it for granted, as an axiom that needs no proof, that a man will naturally

seek to increase his fortunes by all legal means. But what says the Gospel? 'And it came to pass that the beggar died and was carried by the angels into Abraham's bosom. The rich man died also and was buried in hell.'

The seventeenth-century preacher, Father Bourdalone, said in a sermon: 'It is an oracle uttered by the Holy Ghost and proved by experience throughout the ages that those who seek to become rich fall into the snare of the devil and into countless desires which plunge them at last into everlasting damnation'. Again he quoted St Chrysostom, who says: 'men wish to become rich at any price. They wish to be rich without limits. They wish to be rich quickly.'

Now the way of justice, it is suggested, lies in seeking no more than a just reward for work done. No reward where there is no work; a reward commensurate with the effort for work done. This may exclude interest, profits derived from creation of money, undue profits for the use of capital.

But there is a second difficulty which has become more urgent in this twentieth century. In the nineteenth century it was customary for men to use their own fortunes in developing their own businesses. A rich man would, indeed, often entrust part of his wealth to a well-tried acquaintance; but he would continue to take an abiding interest in his investment. Nowadays, as Pius XI has observed, 'not wealth alone is accumulated, but immense power and despotic economic domination are concentrated in the hands of a few, who for the most part are not the owners, but only the trustees and directors of invested funds, which they administer at their own good pleasure'. It is the age of the managerial revolution.

A Catholic business man's duty, it would seem, is to work for his employer faithfully, and in doing so to advantage the employer by every lawful means. A Catholic business man will study markets in the course of his business and seek to buy cheap and sell dear. What has St Thomas to say of this? He will seek to invest his employer's funds to the best advantage, in the most profitable concerns, at the highest rate of interest. He will seek to manipulate his employer's investments so as to secure enormous profits.

In doing this he may be content with a salary that is commensurate with the skill and assiduity that he exercises in his profession. Is he thereby justified?

What does St Thomas say? He says: 'Trading considered in itself has a certain debasement attaching thereto, in so far as by its very nature it does not imply a virtuous or necessary end. Nevertheless, gain, which is the end of trading, though not implying by its nature anything virtuous or necessary, does not in itself connote anything sinful or contrary to nature; wherefore nothing prevents gain from being directed to some necessary or even virtuous end, and thus trading becomes lawful. Thus for instance, a man may intend the moderate gain which he seeks to acquire by trading for the upkeep of his household or for the assistance of the needy'.

Can we Catholic business men lay this unction to our souls: or are we subscribing to the false doctrine that a good end justifies an evil means? We must face this question.

Of course, if the injustices of the capitalist system should become manifest and all-pervading so as to lead the Church to condemn it, our duty would be clear. Faithful Catholics would all become hewers of wood and drawers of water. In no other way could they hope to save their souls. Meanwhile, we must strive to become the finest of craftsmen, the ablest and most energetic of managers, the keenest and best-informed of financiers—not for love of gain, but for the glory of God.

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